



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Patrick C. Lynch, Attorney General

November 15, 2006

VIA ELECTRONIC MAIL

John A. Cogan, Jr.
Office of Health Insurance Commissioner
233 Richmond Street
Providence, RI 02903

Charles C. DeWeese, FSA, MAAA, FCA
263 Wright Road
Canton, CT 06019-3754

**Re: Blue Cross Plan 65 Rate Filing of NonGroup Subscription Rates for:
Medigap Plan A, Medigap Plan B, Medigap Plan C; Medicare Select Plan B,
Medicare Select Plan C, and Medicare Select Plan L**

Submitted September 29, 2006

Dear Messrs. Cogan and DeWeese:

The Attorney General thanks the Office of Health Insurance Commissioner ("OHIC") for the opportunity to provide analyses, comments and input to assist the Commissioner in his review of Blue Cross and Blue Shield of Rhode Island's ("Blue Cross") Plan 65 Rate Filing of NonGroup Subscription Rates for: Medigap Plan A, Medigap Plan B, Medigap Plan C; Medicare Select Plan B, Medicare Select Plan C, and Medicare Select Plan L, submitted on September 29, 2006 (the "Rate Filing").¹

Barbara Niehus, FSA, MAAA ("Consulting Actuary"), was retained to assist the Attorney General in conducting an independent review of the Rate Filing and to develop alternative rate calculations to those proposed in the Rate Filing. After reviewing the Rate Filing, as well as Blue Cross's responses to written questions posed by the Attorney General and the OHIC, the Attorney General disagrees with the rates filed by Blue Cross and recommends instead the following rate changes for the Blue Cross's Plan 65 products as follows: Medigap Plan A – 3.4% increase; Medigap Plan B – 7.8% increase;² Medigap Plan C – 7.8% increase; Medicare Select Plan B -- 9.3% decrease; Medicare Select Plan C – 0.9% increase; and an initial

¹ The various Blue Cross Medigap and Select Medicare supplement plans that are the subject of the Rate Filing are sometimes collectively referred to herein as "Plan 65."

² For purposes of the Attorney General's analysis, it is assumed that Medigap Plan B will receive the same rate change as Medigap Plan C.

rate of \$87.64 for Medicare Select Plan L, and recommends further changes to the Rate Filing, as discussed below, for the reasons that follow.

SECTION I – ATTORNEY GENERAL’S INITIAL STATEMENT

The Rate Filing proposes increases of 9.9% to the Non-Group Subscription rates for Plan 65 Medigap Plans A, B and C, as well as Plan 65 Select Plan C, and a 5.42% increase for Select Plan B. Blue Cross has requested that the new rates be applicable to billing cycle rate years commencing February 1, 2007, March 1, 2007, and April 1, 2007. As of June 30, 2006, approximately 20,300 subscribers were enrolled in plans affected by the proposed rate increases.

In addition to the proposed rate increases, the Rate Filing also requests OHIC approval for Blue Cross to: (1) offer a new Plan 65 Select Plan L commencing February 1, 2007; and (2) implement a new “Age-in Rate” discount program for eligible Plan 65 subscribers. The proposed Select Plan L is a lower cost option that is now permitted under federal law as one of two new Medicare supplement plans designs introduced in the Medicare Modernization Act of 2003 (“MMA”).

The Age-in Rate Program proposes to offer discounts to new subscribers who enroll in Medigap Plan A or C or Select Plan C or L within six months of becoming eligible for Medicare Part B. Under the Age-in Rate methodology, eligible subscribers would receive a discount from the applicable premium rate equal to 30% in the first year, 20% in the second year, and 10% in their third year of enrollment. Beginning in the fourth year of enrollment no discount would apply, and the subscriber would pay 100% of the applicable premium rate.

It is noted that Blue Cross manages its Plan 65 business in two pools. The first pool is the “Medigap Plans” that includes Plan A, Plan B, and Plan C. These are standard plan offerings with free choice of providers. The second pool is the “Select Plans” which includes Select B (no longer sold to new subscribers), Select C, and Select L. The Select Plans require subscribers to receive care from Blue Cross preferred providers in order to qualify for benefits. For purposes of this analysis, the claims experience for the two pools is reviewed and rated separately, as Blue Cross has done in the Rate Filing.

Although a full public evidentiary hearing in connection with the Rate Filing was not scheduled, OHIC invited the participation of the Attorney General to review the Rate Filing and, if desired, provide alternative recommendations to the proposed rate changes for OHIC’s consideration. This submission presents the Attorney General’s findings regarding the rate calculations and methodologies proposed in the Rate Filing, as well as the Attorney General’s alternative rate calculations and specific recommendations relating to public policy considerations concerning the Rate Filing. In particular, the Attorney General asserts that the Plan 65 rate increases proposed in the Rate Filing are excessive, and should not be approved as filed, for three reasons, which are more fully discussed herein.

First, as shown in Attachment AG-D, the claim cost projections for 2007 and 2008³ used by Blue Cross in the Rate Filing are overstated by approximately 10%-12% for Select Plans and 3%-4% for Medigap plans, resulting in excessive rate increases for Plan 65 subscribers. These overstatements are the result of Blue Cross's overstatement of historical claim costs, its failure to consider 2006 claims experience, and its use of trend assumptions that, in the aggregate, have proven to be too aggressive. Note that "trend," as used by the Attorney General, refers to the increase in claim cost from year to year and measures the same effect as the "projection factors" used by Blue Cross in the Rate Filing.

Second, the "flat rate" methodology used by Blue Cross to build administrative expense loads into its Plan 65 premium calculations fails to allocate at least a portion of administrative expenses to the individual plans on a percent of premium basis. As a result, subscribers in the most affordable plans are being overcharged for Plan 65 administrative expenses.

Third, it is inappropriate and unfair for Blue Cross to increase the rates for all other Plan 65 subscribers by an additional rate adjustment factor in order to recover the cost of providing the proposed Age-in Rate discounts. Blue Cross recognizes that this proposed program is an investment in its current and future business.⁴ Therefore, as a matter of public policy, as well as to satisfy its requirements to provide affordable coverage to its subscribers, and in fairness to all Plan 65 subscribers, Blue Cross should appropriately fund the Age-in Rate Program as it would any other investment in its business – *i.e.*, from Blue Cross's general surplus funds. Moreover, if OHIC decides to approve the concept of the Age-in-Rate Program proposed by Blue Cross in the Rate Filing, the Attorney General submits that the steep rate increases produced by Blue Cross's proposed Age-in Rate methodology should be moderated in accordance with the Attorney General's alternative proposal set forth in Section II.D below.

SECTION II – AREAS OF DISAGREEMENT WITH BLUE CROSS'S RATE FILING.

A. The Attorney General Disagrees with the claims cost projections used by Blue Cross in the Rate Filing.

The Attorney General disagrees with the claims costs projections for 2007 and 2008 used by Blue Cross in its Rate Filing and asserts they are overstated by 10%-12% for Select Plans and 3%-4% for Medigap plans, as shown in Attachment AG-D, based on the following reasons:

The analysis conducted by the Attorney General's Consulting Actuary of Blue Cross's actual claim cost data provided in response to AG 1-02 shows that, for the reasons discussed below, the claim cost projections used by Blue Cross as a basis for calculating the Plan 65 rate

³ For purposes of the Attorney General's analysis of the Rate Filing, all references herein and in the Attachments hereto to the years 2004, 2005, 2006, 2007, and 2008 refer to the calendar year, unless otherwise noted.

⁴ In response to AG 1-07, Blue Cross states, "[W]e consider the [Age-in Rate] program to be a *reasonable investment*." (Emphasis added.)

increases proposed in the Rate Filing are overstated. These overstatements produce proposed rate increases for Plan 65 that are excessive. As discussed below, these overstatements are due to Blue Cross's overstatement of historical claim costs, its failure to consider 2006 claims experience, and its use of trend assumptions that, in the aggregate, have proven to be too aggressive.

In July 2005 Blue Cross submitted a Non-Group Plan 65 rate filing comparable to the current Rate Filing. A retrospective review of the 2005 rate filing shows that Blue Cross's claim cost values⁵ used in that filing for both 2005 and 2006 were overstated. This is consistent with the conclusions of the Attorney General's Consulting Actuary regarding the claim cost values used by Blue Cross in the current Rate Filing.

Attachment AG-A compares Blue Cross's claim cost values for 2004, 2005 and 2006. For 2005 and 2006 the Attorney General's Consulting Actuary was able to compare claim cost values from three sources: (1) the 2005 Plan 65 rate filing, (2) the current Rate Filing, and (3) the actual claim cost data provided by Blue Cross in response to AG 1-02. For 2004 the Consulting Actuary was able to determine the actual claim cost values from the data provided by Blue Cross in response to AG 1-02.

Table 1 below shows the progression from 2004 through 2006 of the grand total of all actual claim cost values for the Select and Medigap Plans determined from the actual claims cost data provided by Blue Cross in response to AG 1-02:

TABLE 1

Year	Select (\$)	Trend (%)	Medigap (\$)	Trend (%)
2004	101.26		134.43	
2005	104.12	2.8%	142.05	5.7%
2006 ⁶	101.58	-2.4%	143.61	1.1%

The supporting documentation for Table 1 is shown in Attachment AG-A. Table 1 demonstrates that the historical average annual trend in total claim cost values from 2004 through 2006 was less than 1% for the Select Plans and less than 4% for the Medigap Plans (as shown in Attachment AG-C, Table B).

⁵ Unless otherwise specified, all references to "claim cost values" herein and in the Attachments hereto refer to claim costs per subscriber per month, which are also referred to in the Rate Filing as "claims expense per contract month."

⁶ As calculated by the Attorney General's Consulting Actuary in Attachment AG-B, the 2006 claim cost values shown in Table 1 are based on actual claims cost data provided by Blue Cross in response to AG 1-02 and the adjustments described in Attachment AG-B.

Attachment AG-C, Table B demonstrates that Blue Cross has utilized trend factors for estimating 2007 and 2008 claim cost values that, in aggregate, exceed trends supported by the historical actual claim cost values shown in Table 1. Table 2 below summarizes the excessive trends built in to Blue Cross's 2007 and 2008 projected claim cost values as compared to the observed trends for 2005 and 2006:

TABLE 2

Year	Historical and Projected Trends (%)	
	Select	Medigap
2005 Actual	2.8%	5.7%
2006 Estimated	-2.4%	1.1%
2007 Projected	15.9%	11.7%
2008 Projected	6.6%	6.5%

The observed trends for 2005 and 2006 in Table 2 above were calculated by the Attorney General's Consulting Actuary from the claim cost data provided by Blue Cross in response to AG1-02 and as contained in the Rate Filing. The projected trends for 2007 and 2008 in Table 2 were calculated by the Attorney General's Consulting Actuary using Blue Cross's projected claim cost values for 2007 and 2008, as compared to the observed claim cost values calculated by the Attorney General's Consulting Actuary for 2006. It is the opinion of the Attorney General's Consulting Actuary that the trend factors filed by Blue Cross for 2007 and 2008 are excessive. In developing these trend factors, Blue Cross failed to use historical claim cost experience to verify the reasonableness of its projected claim cost values for 2006, with the result that Blue Cross's projected claim cost values for 2007 and 2008 are significantly overstated, as demonstrated in Table 2.

Based on the Attorney General's Consulting Actuary's analysis and actuarial judgment, aggregate trend factors of 4% and 7% for the Select and Medigap Plans, respectively, were selected as the trend factors used to project the Attorney General's alternative 2007 and 2008 claim cost values reflected in Attachment AG-C, Table C. It is the opinion of the Attorney General's Consulting Actuary that these trend factors are more appropriate than those filed by Blue Cross for use in developing the appropriate rate increases for Plan 65.

Attachment AG-D compares the Attorney General's projected claim cost values to those projected by Blue Cross for 2007 and 2008. A comparison of the Attorney General's projected claim cost values to Blue Cross's calculation of its claim cost values in the Rate Filing shows that the Blue Cross claim cost values for 2007 and 2008 are overstated by approximately 10% to 12% for the Select Plans and 3% to 4% for Medigap Plans.

In response to AG 2-09, which asked Blue Cross to explain the reasons for the significant discrepancies between the lower observed trends for 2005 and 2006 and the 2007 and 2008 trend factors utilized by Blue Cross in the Rate Filing, Blue Cross stated that the observed differences in 2005 and 2006 were primarily due to lower than expected trends in Skilled Nursing Facility costs and Part B copayments. However, Blue Cross has made no effort to reflect these lower observed trends by adjusting its projection factors in the current Rate Filing. Instead, without any apparent basis for doing so, Blue Cross has simply assumed that these future trends will be higher than those observed in recent history, resulting in an overstatement of its projected claim cost values for 2007 and 2008.

Blue Cross's trend assumptions in the Rate Filing were developed using numerous underlying assumptions by benefit type. For each benefit type an assumption was made for benefit changes, provider fee changes and utilization/mix. Although the errors made by Blue Cross in its trend assumptions are, in some instances, small in amount, the accumulation of the errors in individual assumptions has a compounding effect which ultimately produces proposed rate increases for Plan 65 that are excessive and inappropriate.

Indeed, one glaring example of Blue Cross's error in its assumptions about trends relates to the physician fees. Blue Cross attempted to defend its choice of trend rates applicable to physicians' charges in response to a question raised by OHIC (1-01). CMS has now officially announced a decrease of 5% in 2007 physicians' payments. In light of the 2005 and 2006 historical trends, as well as the recent CMS announcement, Blue Cross's selected trend rate for physician payments is too high. However, Blue Cross has not reduced its trend factor to reflect the CMS change. This is the type of error in assumption that can compound the overstatement of projected claim cost values, as described above. Such errors in assumptions become critical when, as is the case with this particular assumption, the component of cost to which this trend rate applies (i.e., Part B copayments) is the single largest claim cost component, representing over 70% of Select grand total costs and over 55% of Medigap grand total costs (see Attachment AG-A).

Further, in determining its proposed rate increases for Plan 65, Blue Cross adds 2% of premium as a contribution to reserves. Since this essentially provides a premium margin, Blue Cross, in fairness to its subscribers, should estimate its claim cost values at "best estimate" level, without any intentional conservatism and without any obvious overstatements. The Attorney General therefore recommends that the projected claim cost values and corresponding trend factors for 2007 and 2008, which have been developed by the Attorney General's Consulting Actuary as set forth in Attachment AG- C, Table 3, be utilized in developing the appropriate rate increases for Plan 65.

B. The Attorney General disagrees with the methodology used by Blue Cross to calculate its administrative expense loads in the Rate Filing.

The Attorney General disagrees with the methodology used by Blue Cross to determine the administrative expense loads utilized in the Rate Filing, and believes that the administrative expenses should be allocated more fairly to Plan 65 subscribers, for the reasons described below.

In performing the rate calculations in its Rate Filing, Blue Cross treats claims expenses and other administrative expenses as a flat dollar amount per contract. As shown, for example, in Schedules 17 and 23 of the Rate Filing, the monthly administrative expense amount built into the projected premiums for all Plan 65 products is a flat rate of \$19.725. However, typical industry practice for pricing insurance products more appropriately and fairly treats administrative expenses so that a portion is generally priced as a flat dollar amount and another portion is priced as a percentage of premium.

In response to question AG 1-05, Blue Cross was unable to explain why its 100% flat rate approach for allocating administrative expenses to Plan 65 was used, other than for the purpose of maintaining consistency with prior filings. Blue Cross correctly notes that if a different methodology were to be used, the total expense loads across all Plan 65 products would remain constant, with the result that the rates for any particular plan would be impacted either up or down. Notwithstanding Blue Cross's acknowledgement of the latter result, Blue Cross did not address the appropriateness or fairness of charging its Plan 65 subscribers a flat administrative expense rate.

A review of Blue Cross's 2004 and 2005 annual statements shows that claims expenses represent approximately 40% of total administrative expenses for Plan 65 (see Attachment AG-E). Typically, claims expenses are more directly related to premium volume and, accordingly, are better reflected as a percentage of premium, rather than as a flat dollar amount. Of the remaining 60% of total administrative expenses for Plan 65, a portion will be driven by premium volume and a portion will be a fixed amount per contract.

For illustration purposes, in Attachment AG-F, the Attorney General's Consulting Actuary has calculated the required rates for Plan 65 assuming that 50% of administrative expenses would be charged as a flat dollar component, with the remaining 50% charged as a percentage of premium. Despite this change in formula, the Consulting Actuary's alternative calculation builds in the same total dollars of Plan 65 administrative expense as requested by Blue Cross in the Rate Filing. Instead of Blue Cross's flat administrative expense rate of \$19.7250 per contract month (and 0% of premium), the Consulting Actuary's alternative calculation would charge a flat rate of \$9.8625 per contract month, plus 5.76% of premium. Using the data provided by Blue Cross, Attachment AG-F demonstrates that the alternative calculation recommended by the Attorney General would produce the same total administrative expense dollars as requested by Blue Cross in the Rate Filing.

Even though the total administrative expense dollars for Plan 65 would remain the same, the Attorney General's alternative calculation would instead allow the lower cost plans (which will likely use less administrative resources) to pay less administrative expense, while the higher cost plans (which would ostensibly use more administrative resources due to their richer benefit plans) would pay more administrative expense. The net result is that the lower cost plans would become more affordable, with minimal impact on the higher cost plans. The results of the Attorney General's alternative rate calculations based upon a 50% flat dollar rate and 50% percentage of premium methodology are summarized in Attachment AG-J, which shows that the required rates for Plan C would increase by approximately 0.4% (or less than \$1), while the rates for all other Plan 65 plans would decrease by 1.4% to 4.3%. The detailed rate calculations summarized in Attachment AG-J are provided in Attachments AG-G, H and I. The 50% flat dollar rate/50% percentage of premium methodology recommended by the Attorney General thus would not only allocate claims and administrative expenses to the various Plan 65 plans more fairly, but would also have the effect of making the lower-cost Plan 65 plans even more affordable.

The Attorney General also notes that, in response to AG 2-16, Blue Cross indicated that the administrative expense per contract month was \$14.13 in 2004. For purposes of developing the rate increases proposed in the current Rate Filing, Blue Cross indicates that the administrative expense per contract month has increased by 40%, to \$19.725. Although it appears that one of the drivers of this increase is the loss of the business of the State of Rhode Island, this increase is significant and Blue Cross should be required to find a way to reduce these administrative costs.

An additional area of concern is related to the claims processing costs through Perot Services. In response to AG 2-11(a), Blue Cross stated, "*Our claims processing costs are not affected whether claims are processed in an electronic or paper format.*" Typically, insurers find electronic processing to be less expensive than paper processing. Under such circumstances, it would appear that the contract with Perot Services is not structured properly to provide the benefit of such savings to Blue Cross. If this is the case, while Blue Cross is addressing other issues with Perot, Blue Cross should address this concern as well.

C. The Attorney General disagrees with the additional load factor Blue Cross seeks to impose upon all of its existing Plan 65 subscribers to fund the costs of its proposed Age-in Rate Program.

For the reasons discussed below, the Attorney General disagrees with Blue Cross's request for approval to fund the costs of its proposed Age-in Rate discount program with an additional load factor to be paid by all of its existing Plan 65 subscribers.

Blue Cross has proposed an incremental rate increase to fund the proposed Age-in Rate Program. Specifically, Blue Cross has proposed an additional load factor of 0.4% for Medigap Plans A, B, and C, and approximately 1% for Select Plans B, C, and L. As discussed below, Blue Cross has not only overstated the actual cost to implement its proposed Age-in Rate Program, but also inappropriately and unfairly seeks to increase the cost for existing Plan 65 subscribers to make this investment in its business through expansion of its marketing program.

Blue Cross has stated that it seeks permission to implement the Age-in Rate Program because it is anticipated that the Program would reduce Plan 65 costs over the long term. Thus, the rationale behind the Age-in Rate Program is that it will attract younger, healthier subscribers and reduce the average costs of the total pool of Plan 65 subscribers. To test this theory, the Attorney General's Consulting Actuary performed an analysis of actual claim costs for Medigap Plan C by issue age and duration (where Duration 1 is the first year of coverage, Duration 2 is the second year, etc.). The Consulting Actuary's findings are presented in Attachment AG-K. For new subscribers first purchasing coverage at ages 65, 66, or 67, this analysis demonstrates that claim costs in each of the first three years of coverage were approximately 60-65% of the average claim cost across the entire block, thereby increasing the "profitability" of this group of Plan 65 subscribers for Blue Cross.

Attachment AG-L provides an illustration of the "profitability" of incremental new subscriber sales under the Age-in Rate Program. Based on the analysis of the Attorney General's Consulting Actuary, the new Age-in Rate issues that are incremental to the existing subscriber population would have the effect of contributing to Blue Cross's surplus in the first three years. Moreover, Blue Cross would realize the equivalent of additional "profits" (i.e., benefits to Blue Cross) during the second and third year, as summarized in Table 3 below:

TABLE 3

Category	Potential Contribution to Blue Cross's Excess of Assets Minus Liabilities as Percent of Premium
Average Subscriber	2.0%
Age 65, Duration 1	6.2%
Age 65, Duration 2	21.5%
Age 65, Duration 3	27.7%

Blue Cross calculates an "Age-in Credit Impact Factor" in Schedules 11 and 12 of the Rate Filing. However, Blue Cross's assumes no incremental new subscriber sales under the Age-in Rate Program, ignoring the benefit the Attorney General describes above, which is Blue Cross's stated underlying rationale for instituting this program.

Blue Cross has indicated that its major competition in the State of Rhode Island is AARP's Medicare supplement plan underwritten by UnitedHealthcare ("UHC"). The Attorney General obtained copies of UHC's recent filings for this line of business and the Attorney General's Consulting Actuary also spoke with UHC's actuary regarding UHC's rating programs. UHC's most recently-approved filing made in 2005 for 2006 rates indicates that UHC offers three different rate bases for its Medicare supplement plan. For UHC members enrolling from age 65 through age 67 (i.e., before their 68th birthday), and for UHC members over the age of 68 enrolling within six months of their first eligibility for Medicare Part B, a premium discount applies equal to 20% in the first year, 15% in the second year, 10% in the third year, and 5% in the fourth year, with no discount thereafter. Other UHC enrollees who are under age 65 or are age 68 or older will pay either 110% or 150% of the standard premium rate, depending on their health.

UHC also indicated to the Attorney General's Consulting Actuary that the discount rate program it offers through AARP has been very successful, and has produced overall cost reductions within five years of its introduction. Moreover, as a matter of policy, UHC did not elect to increase the premium rates of its existing block of Medicare supplement subscribers to cover any anticipated incremental costs of the discount rate program when it was first introduced.

UHC initially introduced its discount rate program for new members enrolling within six months of their first eligibility for Medicare Part B. However, UHC subsequently expanded its discount rate program to include all new members between their 65th and 68th birthdays, and has found that this expansion resulted in additional favorable selection providing additional benefits to the program.

If Blue Cross's proposed Age-in Rate Program is to be approved by OHIC, Blue Cross should not be permitted to pass on any costs of this program to its existing Plan 65 subscribers. Rather, Blue Cross should be required to fund in full all of the costs of this investment in its business.

D. In the interest of affordability, the Attorney General disagrees with the proposed steepness of the Age-in Rate discounts offered over the time period proposed in the Rate Filing.

For the reasons discussed below, the Attorney General disagrees with the proposed steepness of the Age-in Rate discounts offered over the time period proposed in the Rate Filing. Further, if this new program is to be approved by OHIC, Blue Cross should be required to clearly disclose, to all Plan 65 subscribers (whether eligible for the Age-in Rate Program or not), all pricing and discount information regarding the program so that subscribers are able to make informed purchase choices.

For eligible new subscribers under the Age-in Rate Program, Blue Cross has proposed an initial discount of 30%, with discounts of 20% in the second year, 10% in the third year, and no discount thereafter. This clearly represents a savings to those subscribers who qualify for the discount program. However, the trade-off for those discounts, in the manner proposed by Blue Cross in the Rate Filing, is large renewal increases in the years immediately following the first year of enrollment, as shown in Attachment AG-M.

The discount pricing approach Blue Cross appears to take in the Rate Filing is commonly used in the small group health insurance market. For a number of years, small group health insurance rates have been regulated by state law. One area of regulation has been the amount of discount/loads that are permitted relative to the "standard" rates. Rhode Island also has such a law (R.I.G.L. §27-50-5). In section (a) (2) of this statute, the maximum allowed variation from standard is 10%. This permits an insurer to charge anywhere from 90% to 110% of the standard rate – a variation of 22% from top to bottom. By comparison, the 30% discount proposed by Blue Cross for the first year of the Age-in Rate Program exceeds this range. Although no specific rules apply to the rating of Medicare supplement products, this comparison gives some indication of what the Rhode Island Legislature might consider as a reasonable discount range, and is offered for the Commissioner's consideration in this case.

Blue Cross's desire to compete for healthy lives in this marketplace must be balanced against the reasonableness of the rate increases that its Plan 65 subscribers will be forced to tolerate. An alternative to the steeper discounts proposed by Blue Cross is presented by the Attorney General in Attachment AG-M. Attachment AG-M shows the pattern of rate increases under an alternative Age-in Rate methodology that would provide a discount to eligible new Plan 65 subscribers of 30% in the first year of enrollment, followed by discounts of 20%, 15%, 10%, 5% in years 2 through 5, with no discount beginning in years 6 and later. Under this proffered alternative scenario, the eligible subscriber would experience additional dollar savings, while the change in the size of the annual rate increases this subscriber would face as the rate discounts are eliminated would be moderated. Thus, the Attorney General's alternative proposal for the Age-in Rate Program would constitute an additional affordability measure to benefit Plan 65 subscribers.

During discovery, the Attorney General asked, in the event that the OHIC approves the proposed Age-in Rate Program, for copies of any marketing materials to be distributed to Plan 65 members (both current and new), not only as to the discounts to be given, but also as to the cost that other Plan 65 members would be forced to pay in order to fund the Age-in Rate Program under Blue Cross's proposal. However, Blue Cross has stated that these marketing materials are not yet available. The Attorney General is extremely concerned that if this new program, including its funding through an additional load factor, is approved by OHIC, any marketing materials to be distributed to Blue Cross subscribers must be clear as to the details of the discounts, as well as to the details of any additional costs of the program to be paid by all affected Plan 65 subscribers.

If the proposed Age-in Rate Program is approved by OHIC, the marketing materials used by Blue Cross to market the program need to clearly state how the program works, including disclosure of the incremental rate increases that Age-in Rate Program subscribers will face as the Age-in Rate discounts are eliminated. Furthermore, in the event that other Plan 65 subscribers are required to subsidize the costs of the proposed Age-in Rate Program proposed by Blue Cross, Blue Cross should be required to disclose this fact, as well as the projected amount of this subsidy, to all Plan 65 subscribers (whether or not they are eligible to participate in the Age-in Rate Program) at the time of the program's initial implementation and at every renewal date for each subscriber for as long as the program continues to be subsidized by other Plan 65 subscribers. Under any such approval, the Attorney General requests a thorough review be conducted of all related marketing materials, regardless of the details of any approval.

SECTION III - ATTORNEY GENERAL'S ALTERNATIVE RECOMMENDATION

For the reasons discussed above, Attorney General respectfully asserts that the rate increases proposed by Blue Cross in the Rate Filing for its Plan 65 nongroup subscribers are excessive, and recommends instead that Blue Cross be required to adopt the modifications to the Rate Filing discussed in Sections II and III above. The Attorney General submits that the projected claim cost values used by Blue Cross to determine the required rate increases are overstated by 10.6% for the Select Plans, as shown in Attachment AG-N, and by 4.1% for the Medigap Plans, as shown in Attachment AG-O, as compared in each case to the Attorney General's calculations.

Attachment AG-S shows the alternative rates developed by the Attorney General's Consulting Actuary utilizing the alternative assumptions and detailed calculations described above for claim cost values, as well as the alternative administrative expense formula which charges administrative expenses based 50% as a flat dollar charge and 50% as a percentage of premium. The detailed calculations and assumptions supporting the alternative rates proposed by the Attorney General in Attachment AG-S are provided in Attachments AG-P, AG-Q, and AG-R.

Table 4 below compares the average Plan 65 rate changes recommended by the Attorney General in Attachment AG-S to the Plan 65 rate increases requested by Blue Cross in the Rate Filing. Table 4 demonstrates that the Plan 65 rate increases requested by Blue Cross are overstated and excessive:

TABLE 4*



Plan	Blue Cross's Requested Rate Increases	Average Rate Changes Recommended by Attorney General
Medigap Plan A	9.9%	3.4%
Medigap Plan C	9.9%	7.8%
Select Plan B	5.4%	(9.3%)
Select Plan C	9.9%	0.9%

* For specific rate changes by Plan, see Attachment AG-S.

In addition, the Attorney General's Consulting Actuary has calculated that the initial required rate for the new Select Plan L should be \$87.64, which is \$13.71, or 13.5%, less than Blue Cross's proposed rate for Select Plan L of \$101.35.

For all of the reasons contained herein, the Attorney General respectfully requests that the OHIC adopt the alternative rate recommendations, as well as the other specific recommendations, of the Attorney General set forth herein.

Sincerely yours,



Genevieve M. Martin
Assistant Attorney General
Chief, Insurance Advocacy Unit
Brenda K. Gaynor
Special Assistant Attorney General

Attachments (AG-A—AG-S)

cc: Normand G. Benoit, Esq., w/ Attachments
(via electronic mail)

Rhonda Schwartz, Esq., w/ Attachments
(via electronic mail)

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Attachment AG-A

Comparison of Claim Cost Values - 2004-2006

	2004 Costs			2005 Costs			2006 Costs		
	Actual From Data AG 1-02	7/05 Filing Schedule 10	9/06 Filing Schedule 21	Actual From Data AG 1-02	7/05 Filing Schedule 10	9/06 Filing Schedule 21	7/05 Filing Schedule 10	9/06 Filing Schedule 21	Estimate * From Actual Data AG 1-02
Select Plans									
Part A									
Deductible	\$0.48	\$0.4816	\$0.7036	\$0.70	\$0.5027	\$0.7462			
Copayments	\$0.03	\$0.0313	\$0.1419	\$0.06	\$0.0327	\$0.1481			
365 Additional Days	\$0.27	\$0.0009	\$0.1355	\$0.55	\$0.0009	\$0.1405			
Skilled Nursing Facility Copayment	\$17.88	\$19.7713	\$17.2181	\$17.27	\$21.6852	\$18.9709			
Sub-Total	\$18.66	\$20.2851	\$18.1991	\$18.57	\$22.2215	\$20.0057			
Part B									
Deductible	\$8.34	\$9.1545	\$9.3669	\$9.34	\$10.2137	\$10.3333			
Copayment	\$74.25	\$79.3902	\$76.8346	\$76.20	\$84.6538	\$80.0386			
Sub-Total	\$82.59	\$88.5447	\$86.2015	\$85.54	\$94.8675	\$90.3719			
Foreign Travel Emergency:	\$0.01	\$0.0510	\$0.0012	\$0.00	\$0.0510	\$0.0012			
Grand Total	\$101.26	\$108.8808	\$104.4018	\$104.12	\$117.1400	\$110.3788			\$101.5813

	2004 Costs			2005 Costs			2006 Costs		
	Actual From Data AG 1-02	7/05 Filing Schedule 15	9/06 Filing Schedule 27	Actual From Data AG 1-02	7/05 Filing Schedule 15	9/06 Filing Schedule 27	7/05 Filing Schedule 15	9/06 Filing Schedule 27	Estimate * From Actual Data AG 1-02
Medigap Plans									
Part A									
Deductible	\$22.46	\$23.9987	\$24.0364	\$24.04	\$25.0522	\$25.4906			
Copayments	\$1.76	\$1.4807	\$2.3978	\$2.00	\$1.5457	\$2.5031			
365 Additional Days	\$0.19	\$0.5513	\$0.2831	\$1.19	\$0.5689	\$0.2936			
Skilled Nursing Facility Copayment	\$20.25	\$22.7760	\$21.3344	\$21.14	\$24.9807	\$23.5062			
Sub-Total	\$44.66	\$48.8067	\$48.0517	\$48.37	\$52.1475	\$51.7935			
Part B									
Deductible	\$8.27	\$9.0819	\$9.3998	\$9.38	\$10.1327	\$10.3333			
Copayment	\$81.44	\$87.9458	\$84.8342	\$84.25	\$93.8118	\$88.3972			
Sub-Total	\$89.71	\$97.0277	\$94.2340	\$93.63	\$103.9445	\$98.7305			
Foreign Travel Emergency:	\$0.06	\$0.2611	\$0.0415	\$0.05	\$0.2611	\$0.0415			
Grand Total	\$134.43	\$146.0955	\$142.3272	\$142.05	\$156.3531	\$150.5655			\$143.6102

* See calculation in Attachment AG-B

Attachment AG-B

Calculation of 2006 Claim Cost Values, Projected from Actual Data Provided in Response to AG 1-02

Select Plans	Actual From Data AG 1-02	Completion Factor *	Seasonality Factor **	Estimate Based on Incurred through 6/30; Paid through 9/30
	Incurred through 6/30; Paid through 9/30			
Part A				
Deductible	\$0.55			
Copayments	\$0.12			
365 Additional Days	\$0.08			
<u>Skilled Nursing Facility Copayment</u>	<u>\$11.01</u>			
Sub-Total	\$11.76			
Part B				
Deductible	\$19.50			
<u>Copayment</u>	<u>\$72.65</u>			
Sub-Total	\$92.15			
<u>Foreign Travel Emergency:</u>	<u>\$0.00</u>			
<u>Grand Total</u>	<u>\$103.91</u>	1.04	0.94	<u>\$101.58</u>
Medigap Plans				
Part A				
Deductible	\$25.55			
Copayments	\$1.56			
365 Additional Days	\$0.16			
<u>Skilled Nursing Facility Copayment</u>	<u>\$16.68</u>			
Sub-Total	\$43.95			
Part B				
Deductible	\$19.96			
<u>Copayment</u>	<u>\$81.15</u>			
Sub-Total	\$101.11			
<u>Foreign Travel Emergency:</u>	<u>\$0.29</u>			
<u>Grand Total</u>	<u>\$145.35</u>	1.04	0.95	<u>\$143.61</u>

* Completion factor based on Blue Cross's March 31, 2006 Quarterly Statement values for Medicare Supplement. Estimated reserve of \$771,700 (Column (3) Line (2) of Quarterly Statement page 9) as compared to approximately \$44 million of 2005 incurred claims reported on page 12 of the 2005 Annual Statement Section 3, Line (5) Column (2) plus Column (7). This represents 2% of annual claims, converted to 4% for six months of paid claims.

** Seasonality reflects the fact that annual claim costs per contract month have historically been lower than the comparable value at June 30. To reflect this, the observed seasonality in 2004 and 2005 was averaged using the data provided in response to AG 1-02. Although the seasonality adjustment varies significantly by benefit type, it appears to be reliable at the grand total cost level.

Attachment AG-C

Historical and Projected Claim Cost Trends.

Table A. Blue Cross - Using Blue Cross Values for All Years

Year	Select*		Medigap**	
	Rate	Trend	Rate	Trend
2005	104.4018		142.3272	
2006	110.3788	5.7%	150.5655	5.8%
2007	117.6965	6.6%	160.4163	6.5%
2008	125.4697	6.6%	170.8222	6.5%

* Select Plans "All Benefits" totals from current Rate Filing Schedules 19, 20, and 21.

** Medigap Plans "All Benefits" totals from current Rate Filing Schedules 25, 26, and 27.

Table B. Using Actual Experience for 2004-2006 and Blue Cross Values for 2007 - 2008

Year	Select		Medigap	
	Rate *	Trend **	Rate *	Trend **
2004	101.2600		134.4300	
2005	104.1175	2.8%	142.0500	5.7%
2006	101.5813	-2.4%	143.6102	1.1%
2007	117.6965	15.9%	160.4163	11.7%
2008	125.4697	6.6%	170.8222	6.5%

*2004, 2005, & 2006 rates come from Select Grand Total as shown in Attachment AG-A. The 2007 and 2008 rates are from Table A.

** 2007 and 2008 trend factors are derived by taking the ratio of the current year rate to the prior year rate.

Table C. Alternative - Using Actual Experience for 2004-2006 and Selected Trends

Year	Select		Medigap	
	Rate *	Trend **	Rate *	Trend **
2004	101.2600		134.4300	
2005	104.1175	2.8%	142.0500	5.7%
2006	101.5813	-2.4%	143.6102	1.1%
2007	105.6446	4.0%	153.6629	7.0%
2008	109.8704	4.0%	164.4193	7.0%

*2004, 2005, & 2006 rates come from Select Grand Total as shown in Attachment AG-A. The 2007 and 2008 rates are calculated using the selected trends.

** 2007 and 2008 trend factors are selected based on actuarial judgment.

Attachment AG-D

Comparison of Blue Cross Claim Cost Values to Actual/Alternative Values

Table A. Blue Cross- Using Blue Cross Values for all years*

Year	Select		Medigap	
	Rate	Trend	Rate	Trend
2005	104.40		142.33	
2006	110.38	5.7%	150.57	5.8%
2007	117.70	6.6%	160.42	6.5%
2008	125.47	6.6%	170.82	6.5%

* See Attachment AG-C Table A

Table B. Alternative - Using Actual Claim Cost Experience for 2004-2006 and Selected Trends*

Year	Select		Medigap	
	Rate	Trend	Rate	Trend
2005	104.12	2.8%	142.05	5.7%
2006	101.58	-2.4%	143.61	1.1%
2007	105.64	4.0%	153.66	7.0%
2008	109.87	4.0%	164.42	7.0%

* See Attachment AG-C Table C

Table C. Blue Cross Overstatement of Claim Cost Values**

Year	Select		Medigap	
	Dollar	Percent	Dollar	Percent
2005	0.28	0.27%	0.28	0.19%
2006	8.80	7.97%	6.96	4.62%
2007	12.05	10.24%	6.75	4.21%
2008	15.60	12.43%	6.40	3.75%

** Table C measures the difference between Table A and Table B above

Attachment AG-E

Summary of Plan 65 Administrative Expenses Reported in Blue Cross's Statutory Annual Statements

Year	General		Total	
	Claims Expenses	Administrative Expenses	Administrative Expenses	Claims Exp as % of Total
2003	2,410,678	3,422,077	5,832,755	41%
2004	2,473,222	3,925,801	6,399,023	39%
2005	2,270,822	3,630,483	5,901,305	38%

Source: Analysis of Operations by Lines of Business (Statutory Annual Statement Page 7, column 3, lines 19 and 20)

Attachment AG-F

Equivalence Comparison of Administrative Expense Factors

		100% Flat Dollar		50% Flat Dollar/50% Percentage of Premium					
Source	Revenue (Premium) (column 3)	Contract Months (Column 2)	Flat Expenses per Contract Month (c)	Required Expenses (d)	50% of Flat Expenses (e)	"Fixed Expenses" (f)	Percent of Premium Charge (g)*	"Percent of premium Expenses" (h)	
									(b)
Schedule 11	9,199,080	66,108	19.7250	1,303,980	9.8625	651,990	5.76%	529,815	
Schedule 12	34,728,146	190,415	19.7250	3,755,936	9.8625	1,877,968	5.76%	2,000,143	
Select Medigap									
TOTAL	43,927,226	256,523	19.7250	5,059,916	9.8625	2,529,958	5.76%	2,529,958	

* Percent of premium charge is calculated so that together column (f) and column (h) equal Blue Cross calculated expenses (column (d))

Formulas

(d) = Column (b) X Column (c)

(e) = .5 X Column (c)

(f) = (b) x (e)

(h) = (a) * (g)

Attachment AG-G

Effect of Attorney General's Alternative Administrative Expense Charge Formula on Select Plans B and C

Based on Blue Cross Schedule 17

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

CALCULATION OF REQUIRED PLAN B AND PLAN C RATE ADJUSTMENT FACTORS BEFORE AGE-IN CREDIT IMPACT FOR FEBRUARY 1, 2007, MARCH 1, 2007, AND APRIL 1, 2007 BILLING CYCLES

PLAN 65 SELECT

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Projected Weighted Average per Contract Month Values in Aggregate For February 1, 2007, March 1, 2007, and April 1, 2007 Billing Cycles For Rate Years Commencing February 1, 2007, March 1, 2007, and April 1, 2007, Respectively							

		Total Incurred Claims and Flat Dollar Administrative Expense	Investment Income Credit	Percent of Premium Exp plus Contribution to Reserve/ Federal Tax	Required Subscription Income Before Age-in Credit Impact	Present Weighted Average Subscription Income	Required Rate Adjustment Factor Before Age-in Credit Impact
		(C)	(E)	(F)	(G)	(H)	(I)
<u>Blue Cross Calculation</u>							
Select Plan B	\$86.7402 (A)	\$19.7250	(\$1.6715)	\$2.6870	\$107.4807	\$102.9936	1.0436
Select Plan C	\$118.9440 (B)	\$19.7250	(\$2.1771)	\$3.4998	\$139.9917	\$123.1222	1.1370
<u>Attorney General's Alternate Calculation *</u>							
Select Plan B	\$86.7402 (A)	\$9.8625	(\$1.6715)	\$8.5473	\$103.4785	\$102.9936	1.0047
Select Plan C	\$118.9440 (B)	\$9.8625	(\$2.1771)	\$11.4013	\$138.0307	\$123.1222	1.1211

* Charging expense as flat \$9.8625 per month plus variable 5.76% of premium

(A) Per Schedule 18, Column 2.

(B) Per Schedule 18, Column 3.

(C) Flat Dollar charge -- see Attachment AG-F

(D) Sum of Columns 1 and 2.

(E) Reduction of required subscription income per contract per month due to anticipated return on invested funds.

(F) At Percent of premium load (PP = 0% for Blue Cross Calculation; 5.76% for alternate calculation -- see Attachment AG-F) plus 2% reserve loading plus 0.5% federal tax liability: (Column 3 + Column 4) / (0.9750-PP) - (Column 3 + Column 4).

(G) Sum of Column 3 through Column 5.

(H) Based on contract month distribution from January 1, 2005 through December 31, 2005.

(I) Column 6 divided by Column 7.

Effect of Attorney General's Alternative Administrative Expense Charge Formula on Medigap Plans A and C

Based on Blue Cross Schedule 23

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

CALCULATION OF REQUIRED PLAN A AND PLAN C RATE ADJUSTMENT FACTORS BEFORE AGE-IN CREDIT IMPACT

FOR FEBRUARY 1, 2007, MARCH 1, 2007, AND APRIL 1, 2007 BILLING CYCLES.

PLAN 65 MEDIGAP

- (1)
- (2)
- (3)
- (4)
- (5)
- (6)
- (7)
- (8)

Projected Weighted Average per Contract Month Values in Aggregate

For February 1, 2007, March 1, 2007, and April 1, 2007 Billing Cycles

For Rate Years Commencing February 1, 2007, March 1, 2007, and April 1, 2007, Respectively

	Total Incurred	Incurred Claims and Flat Dollar Administrative Expense	Flat Dollar Administrative Expense	Investment Income Credit	Contribution to Reserve/ Federal Tax	Required Subscription Income Before Age-in Credit Impact	Present Weighted Average Subscription Income	Required Rate Adjustment Factor Before Age-in Credit Impact
			(C)	(E)	(F)	(G)	(H)	(I)
<u>Blue Cross Calculation</u>								
Medigap Plan A	\$97,5456 (A)		\$19,7250	(\$1,8411)	\$2,9597	\$118,3892	\$107,0338	1.1061
Medigap Plan C	\$162,0863 (B)		\$19,7250	(\$2,8544)	\$4,5886	\$183,5455	\$164,2415	1.1175
<u>Attorney General's Alternate Calculation *</u>								
Medigap Plan A	\$97,5456 (A)		\$9,8625	(\$1,8411)	\$9,5049	\$115,0719	\$107,0338	1.0751
Medigap Plan C	\$162,0863 (B)		\$9,8625	(\$2,8544)	\$15,2248	\$184,3192	\$164,2415	1.1222

* Charging expense as flat \$9.8625 per month plus variable 5.76% of premium

- (A) Per Schedule 24, Column 2.
- (B) Per Schedule 24, Column 3.
- (C) Flat Dollar charge -- see Attachment AG-F
- (D) Sum of Columns 1 and 2.
- (E) Reduction of required subscription income per contract per month due to anticipated return on invested funds.
- (F) At Percent of premium load ($PP = 0\%$ for Blue Cross Calculation; 5.76% for alternate calculation -- see Attachment AG-F) plus 2% reserve loading plus 0.5% federal tax liability: $(\text{Column 3} + \text{Column 4}) / ((0.9750 - PP) - (\text{Column 3} + \text{Column 4}))$.
- (G) Sum of Column 3 through Column 5.
- (H) Based on contract month distribution from January 1, 2005 through December 31, 2005.
- (I) Column 6 divided by Column 7.

Attachment AG-I

Effect of Attorney General's Alternative Administrative Expense Charge Formula on Select Plan L

Based on Blue Cross Schedule 6

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

CALCULATION OF PLAN L

REQUIRED MONTHLY SUBSCRIPTION RATE BEFORE AGE-IN CREDIT IMPACT

FOR FEBRUARY 1, 2007, MARCH 1, 2007, AND APRIL 1, 2007 BILLING CYCLES

PLAN 65 SELECT

	Blue Cross Calculation	Attorney General's Alternative Calculation*
1. Projected Incurred Claims Expense for Select Plan C	\$118.9440	\$118.9440 (A)
2. Select Plan L Claims Reduction Factor	0.6956	0.6956 (B)
3. Select Plan L Benefit Richness Factor	0.9750	0.9750 (C)
4. Projected Incurred Claims Expense for Select Plan L	\$80.6690	\$80.6690 (D)
5. Administrative Expense (flat dollar)	\$19.7250	\$9.8625 (E)
6. Total Incurred Claims and Flat Dollar Administrative Expense	\$100.3940	\$90.5315 (F)
7. Investment Income Credit	(\$1.5762)	(\$1.5762) (G)
8. % Premium Exp/Contribution to Reserve/Federal Tax	\$2.5338	\$8.0093 (H)
9. Required Monthly Subscription Rate per Contract Month Before Age-in Credit Impact	\$101.35	\$96.96 (I)

* Charging expense as flat \$9.8625 per month plus variable 5.76% of premium

(A) Per Schedule 18, Column 3.

(B) Per Schedule 7, Row 3.

(C) Factor to adjust allowed claims for expected differences in utilization and mix of service levels resulting from incentives created by the benefit features of Select Plan L relative to Select Plan C.

(D) Row 1 times Row 2 times Row 3.

(E) Flat Dollar charge -- see Attachment AG-F

(F) Row 4 plus Row 5.

(G) Reduction of required subscription income per contract per month due to anticipated return on invested funds.

(H) At Percent of premium load (PP 0% for Blue Cross Calculation; 5.76% for alternate calculation -- see Attachment AG-F) plus 2% reserve loading plus 0.5% federal tax liability: (Column 3 + Column 4) / (0.9750-PP) - (Column 3 + Column 4).

(I) Row 6 plus Row 7 plus Row 8.

Attachment AG-J

Effect of Attorney General's Alternative Administrative Expense Charge Formula - Summary of All Plans

Plan	Source	Required Rate		
		Blue Cross 100% Flat Dollar	AG Alternative 50/50	Percent Change *
		(a)	(b)	(c)
Medigap				
Plan A	Attachment AG-H Column 6	\$118.39	\$115.07	-2.8%
Plan C	Attachment AG-H Column 6	\$183.55	\$184.32	0.4%
Select				
Plan B	Attachment AG-G Column 6	\$107.48	\$103.48	-3.7%
Plan C	Attachment AG-G Column 6	\$139.99	\$138.03	-1.4%
Plan L	Attachment AG-I Line 9	\$101.35	\$96.96	-4.3%

* (c) = (a) / (b) - 1

Attachment AG-K

Relative Claim Costs by Issue Age and Duration Year *

Issue Age		Coverage Months	Incurred Claims	Monthly Claim Cost	Relative to Average
0 - 64	Duration 1	1,297	309,642	238.74	1.765
	Duration 2	1,026	250,997	244.64	1.808
	Duration 3	906	277,643	306.45	2.265
	Duration 4 +	9,056	1,328,684	146.72	1.085
	Total	12,285	2,166,966	176.39	1.304
65 - 67	Duration 1	6,648	586,886	88.28	0.653
	Duration 2	6,095	511,770	83.97	0.621
	Duration 3	6,275	549,592	87.58	0.647
	Duration 4 +	256,041	34,325,133	134.06	0.991
	Total	275,059	35,973,381	130.78	0.967
68 - 70	Duration 1	1,112	104,165	93.67	0.692
	Duration 2	1,235	94,362	76.41	0.565
	Duration 3	1,275	115,261	90.40	0.668
	Duration 4 +	33,718	4,699,336	139.37	1.030
	Total	37,340	5,013,124	134.26	0.992
71 -75	Duration 1	1,568	202,677	129.26	0.955
	Duration 2	1,731	178,172	102.93	0.761
	Duration 3	1,799	243,588	135.40	1.001
	Duration 4 +	27,174	3,837,937	141.24	1.044
	Total	32,272	4,462,374	138.27	1.022
76+	Duration 1	3,343	552,624	165.31	1.222
	Duration 2	3,648	585,716	160.56	1.187
	Duration 3	3,569	623,885	174.81	1.292
	Duration 4 +	23,124	3,468,537	150.00	1.109
	Total	33,684	5,230,762	155.29	1.148
All Ages	Duration 1	13,968	1,755,995	125.72	0.929
	Duration 2	13,735	1,621,017	118.02	0.872
	Duration 3	13,824	1,809,969	130.93	0.968
	Duration 4 +	349,113	47,659,627	136.52	1.009
	Total	390,640	52,846,607	135.28	1.000

* Coverage months and incurred claims were calculated using 2004 and 2005 data for Medigap Plan C obtained from Blue Cross in response to AG 1-01. Duration 1 refers to first year of coverage, Duration 2 to second year, etc.

Attachment AG-L

Illustration of Financial Impact on Blue Cross from Incremental Plan 65 Age-in Rate Subscribers Based on Medigap Plan C Costs from Rate Filing

Blue Cross Calculation (from Schedule 23 of Rate Filing) -- All subscribers in aggregate									
Medigap Plan C									
Incremental Age-in Rate (For incremental participants who buy because of Age-in Rate savings)									
Duration 1									
Duration 2									
Duration 3									
Total Incurred Claims and Flat Dollar Administrative Expense									
Investment Income Credit									
Contribution to Reserve/Federal Tax									
Required Subscription Income Before Age-in Credit Impact									
Monthly Rate									
Contribution * Dollar									
Contribution * % of Income									
					</				

A Per Attachment AG-K, for an age-65 subscriber, actual claim costs as a percent of average are 65.3%, 62.1%, and 64.7%, respectively, in Durations 1, 2, and 3
 B The incremental administrative expenses associated with the incremental Age-in Rate Program subscribers will be less than proportionate to the total. An incremental administrative expense cost of \$15 is a conservative estimate.

C Sum of (A) plus (B)
 D Assumption selected by AG
 E 2.5% of premium
 F (C) plus (D) plus (E)
 G Age-in Rate is a percentage of the Monthly Rate (column (G)) -- 90%, 80%, and 70%, respectively, in Durations 1, 2, and 3.
 H 2% of (I) plus (G) minus (F)
 I (H) divided by (F)

* Contribution is the portion of premium credited to Blue Cross's excess of assets minus liabilities.

Attachment AG-M

Plan 65 Subscriber's Annual Rate Increases Under the Age-in Rate Program

Duration	Standard Rate *	Age-In Rates, per Blue Cross Proposal			Age-in Rates, per AG Alternative Proposal		
		Blue Cross	Age-in Rate	Percentage Increase	Revised	Age-in Rate	Percentage Increase
1	\$150.00	70.0%	\$105.00		70.0%	\$105.00	
2	\$157.50	80.0%	\$126.00	20.0%	80.0%	\$126.00	20.0%
3	\$165.38	90.0%	\$148.84	18.1%	85.0%	\$140.57	11.6%
4	\$173.64	100.0%	\$173.64	16.7%	90.0%	\$156.28	11.2%
5	\$182.33	100.0%	\$182.33	5.0%	95.0%	\$173.21	10.8%
6	\$191.44	100.0%	\$191.44	5.0%	100.0%	\$191.44	10.5%
Total	\$1,020.29		\$927.25			\$892.50	
Savings			\$93.04			\$127.79	

* Standard Rate assumes a 5% annual increase for illustrative purposes only.

NOTE: This illustrates the annual rate increases experienced by an age 65 subscriber under the Age-in Rate Methodology, assuming the Standard Rates increase at 5% per year. A subscriber not eligible for an Age-in Rate would experience a 5% increase each year under this scenario, but would always pay 100% of the Standard Rate.

Attachment AG-N

Attorney General's Alternative Calculation of Weighted Claim Cost Values for Medicare Select Plans

Based on Blue Cross Schedule 18

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

CALCULATION OF PROJECTED INCURRED CLAIMS EXPENSE PER CONTRACT MONTH

AND ADMINISTRATIVE EXPENSE PER CONTRACT MONTH

FOR FEBRUARY 1, 2007, MARCH 1, 2007, AND APRIL 1, 2007 BILLING CYCLES

PLAN 65 SELECT

	(1)	(2)	(3)	(4)
	Number of Months	Projected Incurred Claims Expense Per Contract Month		Claim Overstatement
		Blue Cross Values	AG Values	
February 2007 Rating Cycle				
February 1 - December 31, 2007	11	(A) \$117.6965	(B) \$105.6446	(C) 10.2%
January 1 - January 31, 2008	1	\$125.4697	\$109.8704	12.4%
Total		\$118.3443	\$105.9967	10.4%
March 2007 Rating Cycle				
March 1 - December 31, 2007	10	\$117.6965	\$105.6446	10.2%
January 1 - February 29, 2008	2	\$125.4697	\$109.8704	12.4%
Total		\$118.9920	\$106.3489	10.6%
April 2007 Rating Cycle				
April 1 - December 31, 2007	9	\$117.6965	\$105.6446	10.2%
January 1 - March 31, 2008	3	\$125.4697	\$109.8704	12.4%
Total		\$119.6398	\$106.7010	10.8%
Grand Total		\$118.9440	\$106.3227	10.6%
Ratio of AG Grand Total Value to Blue Cross Grand Total Value				89.4%

(A) Values are taken Blue Cross Rate Filing Schedule 18 Column 3

(B) 2007 and 2008 Claim Costs come from Attachment AG -D Table B. Totals are calculated as explained in Blue Cross Rate Filing, Schedule 18, notes C and D.

(C) 1 - (B) divided by (A)

Attachment AG-O

Attorney General's Alternative Calculation of Weighted Claim Cost Values for Medigap Plans
Based on Blue Cross Schedule 24
BLUE CROSS & BLUE SHIELD OF RHODE ISLAND
CALCULATION OF PROJECTED INCURRED CLAIMS EXPENSE PER CONTRACT MONTH
AND ADMINISTRATIVE EXPENSE PER CONTRACT MONTH
FOR FEBRUARY 1, 2007, MARCH 1, 2007, AND APRIL 1, 2007 BILLING CYCLES
PLAN 65 MEDIGAP

	(1)	(2)	(3)	(4)
	Number of <u>Months</u>	Projected Incurred Claims Expense Per Contract Month		Claim
		<u>Blue Cross Values</u>	<u>AG Values</u>	<u>Overstatement</u>
February 2007 Rating Cycle				
February 1 - December 31, 2007	11	(A) \$160.4163	(B) \$153.6629	(C) 4.2%
<u>January 1 - January 31, 2008</u>	1	<u>\$170.8222</u>	<u>\$164.4193</u>	3.7%
Total		\$161.2835	\$154.5593	4.2%
March 2007 Rating Cycle				
March 1 - December 31, 2007	10	\$160.4163	\$153.6629	4.2%
<u>January 1 - February 29, 2008</u>	2	<u>\$170.8222</u>	<u>\$164.4193</u>	3.7%
Total		\$162.1506	\$155.4556	4.1%
April 2007 Rating Cycle				
April 1 - December 31, 2007	9	\$160.4163	\$153.6629	4.2%
<u>January 1 - March 31, 2008</u>	3	<u>\$170.8222</u>	<u>\$164.4193</u>	3.7%
Total		\$163.0178	\$156.3520	4.1%
Grand Total		\$162.0863	\$155.3891	4.1%
Ratio of AG Grand Total Value to Blue Cross Grand Total Value				95.9%

(A) Values are taken Blue Cross Rate Filing Schedule 24 Column 3

(B) 2007 and 2008 Claim Costs come from Attachment AG -D Table B. Totals are calculated as explained in Blue Cross Rate Filing, Schedule 24, notes C and D.

(C) 1 - (B) divided by (A)

Attachment AG-P

Effect of Attorney General's Alternative Claim Cost Values and Administrative Expense Charge Formula on Select Plans B and C

Based on Blue Cross Schedule 17

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

CALCULATION OF REQUIRED PLAN B AND PLAN C RATE ADJUSTMENT FACTORS BEFORE AGE-IN CREDIT IMPACT

FOR FEBRUARY 1, 2007, MARCH 1, 2007, AND APRIL 1, 2007 BILLING CYCLES

PLAN 65 SELECT

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Projected Weighted Average per Contract Month Values in Aggregate							
For February 1, 2007, March 1, 2007, and April 1, 2007 Billing Cycles							
For Rate Years Commencing February 1, 2007, March 1, 2007, and April 1, 2007, Respectively							
Incurred Claims Expense	Flat Dollar Administrative Expense (C)	Total Incurred Claims and Flat Dollar Administrative Expense (D)	Investment Income Credit (E)	Percent of Premium Exp plus Contribution to Reserve/ Federal Tax (F)	Required Subscription Income Before Age-in Credit Impact (G)	Present Weighted Average Subscription Income (H)	Required Rate Adjustment Factor Before Age-in Credit Impact (I)
<u>Blue Cross Calculation</u>							
Select Plan B	\$86.7402 (A)	\$106.4652	(\$1.6715)	\$2.6870	\$107.4807	\$102.9936	1.0436
Select Plan C	\$118.9440 (A)	\$138.6690	(\$2.1771)	\$3.4998	\$139.9917	\$123.1222	1.1370
<u>Attorney General Alternative Calculation *</u>							
Select Plan B	\$77.5457 (B)	\$87.4082	(\$1.6715)	\$7.7195	\$93.4562	\$102.9936	0.9074
Select Plan C	\$106.3359 (B)	\$116.1984	(\$2.1771)	\$10.2661	\$124.2875	\$123.1222	1.0095

* Charging expense as flat \$9.8625 per month plus variable 5.76% of premium and using AG's alternative claim cost values.

(A) Per Schedule 17, Column 1.

(B) 89.4% (per Attachment AG-N) of Blue Cross values

(C) Flat Dollar charge -- see Attachment AG-F

(D) Sum of Columns 1 and 2.

(E) Reduction of required subscription income per contract per month due to anticipated return on invested funds.

(F) At Percent of premium load (PP = 0% for Blue Cross Calculation; 5.76% for alternate calculation -- see Attachment AG-F) plus

2% reserve loading plus 0.5% federal tax liability: (Column 3 + Column 4) / (0.9750-PP) - (Column 3 + Column 4).

(G) Sum of Column 3 through Column 5.

(H) Based on contract month distribution from January 1, 2005 through December 31, 2005.

(I) Column 6 divided by Column 7.

Effect of Attorney General's Alternative Claim Cost Values and Administrative Expense Charge Formula on Medigap Plans A and C

Based on Blue Cross Schedule 23

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

CAUTION OF REQUIRED PLAN A AND PLAN C RATE ADJUSTMENT FACTORS BEFORE AGE-IN CREDIT IMPACT

FOR FEBRUARY 1, 2007, MARCH 1, 2007, AND APRIL 1, 2007 BILLING CYCLES

PLAN 65 MEDIGAP

(1) (2) (3) (4) (5) (6) (7) (8)

Projected Weighted Averages per Contract Month Values in Aggregate
For February 1, 2007, March 1, 2007, and April 1, 2007 Billing Cycles
For Rate Years Commencing February 1, 2007, March 1, 2007, and April 1, 2007, Respectively

Projected Weighted Average per Contract Month Values in Aggregate

For February 1, 2007, March 1, 2007, and April 1, 2007 Billing Cycles

For Rate Years Commencing February 1, 2007, March 1, 2007, and April 1, 2007, Respectively

	Incurred Claims Expense	Fiat Dollar Administrative Expense (C)	Total Incurred Claims and Fiat Dollar Administrative Expense (D)	Investment Income Credit (E)	Contribution to Reserve/ Federal Tax (F)	Required Subscription Income Before Age-in Credit Impact (G)	Present Weighted Average Subscription Income (H)	Required Rate Adjustment Factor Before Age-in Credit Impact (I)
<u><i>Blue Cross Calculation</i></u>								
Medigap Plan A	\$97,5456 (A)	\$19,7250	\$117,2706	(\$1,8411)	\$2,9597	\$118,3892	\$107,0338	1.1061
Medigap Plan C	\$162,0863 (A)	\$19,7250	\$181,8113	(\$2,8544)	\$4,5886	\$183,5455	\$164,2415	1.1175
<u><i>Attorney General Alternative Calculation *</i></u>								
Medigap Plan A	\$93,5462 (A)	\$9,8625	\$103,4087	(\$1,8411)	\$9,1449	\$110,7125	\$107,0338	1.0344
Medigap Plan C	\$155,4408 (A)	\$9,8625	\$165,3033	(\$2,8544)	\$14,6264	\$177,0753	\$164,2415	1.0781

* Charging expense as flat \$9,8625 per month plus variable 5.76% of premium and using AG's alternative claim cost values.

(A) Per Schedule 24, Column 1.

(B) 95.9% (per Attachment AG-O) of Blue Cross values

(C) Flat Dollar charge -- see Attachment AG-F

(D) Sum of Columns 1 and 2:

(D) Sum of Columns 1 and 2.

(E) Reduction of required subscription income per contract per month due to anticipated return on invested funds.

(E) Reduction of required subscription income per contract per month due to anticipated return on invested funds.

(F) At Percent of premium load (FF = 0% for Blue Cross calculation, 5.0% for alternate calculation -- see Attachment 1)

(G) Sum of Column 3 through Column 5

(G) Sum of Column 3 through Column 5.

(H) Based on contract month distribution

Attachment AG-R

Effect of Attorney General's Alternative Claim Cost Values and Administrative Expense Charge Formula on Select

Plan L

Based on Blue Cross Schedule 6

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

CALCULATION OF PLAN L

REQUIRED MONTHLY SUBSCRIPTION RATE BEFORE AGE-IN CREDIT IMPACT
FOR FEBRUARY 1, 2007, MARCH 1, 2007, AND APRIL 1, 2007 BILLING CYCLES

PLAN 65 SELECT

	Blue Cross Calculation	Attorney General's Alternative Calculation*
1. Projected Incurred Claims Expense for Select Plan C	\$118,9440	\$106,3359 (A)
2. Select Plan L Claims Reduction Factor	0.6956	0.6956 (B)
3. Select Plan L Benefit Richness Factor	0.9750	0.9750 (C)
4. Projected Incurred Claims Expense for Select Plan L	\$80.6690	\$72.1181 (D)
5. Administrative Expense (flat dollar)	\$19.7250	\$9.8625 (E)
6. Total Incurred Claims and Flat Dollar Administrative Expense	\$100.3940	\$81.9806 (F)
7. Investment Income Credit	(\$1.5762)	(\$1.5762) (G)
8. % Premium Exp/Contribution to Reserve/Federal Tax	\$2.5338	\$7.2394 (H)
9. Required Monthly Subscription Rate per Contract Month Before Age-in Credit Impact	\$101.35	\$87.64 (I)

* Charging expense as flat \$9.8625 per month plus variable 5.76% of premium and using AG's alternative claim cost values.

(A) Per Schedule 6, Column 3. AG Alternative calculation uses 89.4% of Blue Cross values per Attachment AG-N

(B) Per Schedule 7, Row 3.

(C) Factor to adjust allowed claims for expected differences in utilization and mix of service levels resulting from incentives created by the benefit features of Select Plan L relative to Select Plan C.

(D) Row 1 times Row 2 times Row 3.

(E) Flat Dollar charge — see Attachment AG-F

(F) Row 4 plus Row 5.

(G) Reduction of required subscription income per contract per month due to anticipated return on invested funds.

(H) At Percent of premium load (PP = 0% for Blue Cross Calculation; 5.76% for alternate calculation — see Attachment AG-F) plus 2% reserve loading plus 0.5% federal tax liability: (Column 3 + Column 4) / (0.9750-PP) - (Column 3 + Column 4).

(I) Row 6 plus Row 7 plus Row 8.

Attachment AG-S

Comparison of Attorney General's Recommended Plan 65 Average Rates and Rate Changes to Blue Cross's Requested Rates and Rate Changes - All Plans

	Current Average Rate (A)	Blue Cross		AG's	
		Requested Average Rate (B)	Requested Percent Change (C)	Recommended Average Rate (D)	Recommended Percent Change (E)
Medigap					
Plan A	\$107.03	\$117.63	9.90%	\$110.71	3.44%
Plan B	\$101.47	\$111.52	9.90%	\$109.40	7.81%
Plan C	\$164.24	\$180.50	9.90%	\$177.08	7.81%
Select					
Plan B	\$102.99	\$108.58	5.42%	\$93.46	-9.26%
Plan C	\$123.12	\$135.31	9.90%	\$124.29	0.95%
Plan L	n/a	\$102.38	n/a	\$87.64	n/a

(A) From Schedule 23 (Medigap plans) and 17 (Select Plans). Medigap B value comes from fourth page of cover letter.

(B) $(B) = (A) \times (1 + (C))$. Select Plan L value comes from Schedule 5

(C) From pages 4 and 5 of Rate Filing cover letter.

(D) Medigap Plans A and C from Attachment AG-Q; Select Plans B and C from Attachment AG-P; Select Plan L from Attachment AG-R; Medigap B calculated by assuming same percentage increase as Medigap C $(177.08 = 164.24 \times (1 + .0781))$

(E) $(E) = (D) / (A) - 1$; Medigap B value set equal to Medigap C value.

Attachment AG-T

Comparison of Attorney General's Recommended Plan 65 Rates and Rate Changes to Blue Cross's Requested Rates and Rate Changes - All Plans

	Current Rate (A)	Blue Cross Requested Rate (B)	Blue Cross Requested Percent Change (C)	AG's Recommended Rate (D)	AG's Recommended Percent Change (E)
Medigap					
Plan A					
Discount	\$96.32	\$105.86	9.90%	\$99.63	3.44%
Base	\$107.02	\$117.61	9.90%	\$110.70	3.44%
Surcharge	\$128.42	\$141.13	9.90%	\$132.83	3.44%
Age-in Rate	n/a	\$82.33	n/a	\$77.49	n/a
Plan B	\$101.47	\$111.52	9.90%	\$109.40	7.81%
Plan C					
Discount	\$150.04	\$164.89	9.90%	\$161.76	7.81%
Base	\$166.71	\$183.21	9.90%	\$179.74	7.81%
Surcharge	\$200.05	\$219.85	9.90%	\$215.68	7.81%
Age-in Rate	n/a	\$128.25	n/a	\$125.82	n/a
Select					
Plan B					
Discount	\$93.48	\$98.55	5.42%	\$84.82	-9.26%
Standard	\$113.64	\$119.80	5.42%	\$103.12	-9.26%
Plan C					
Discount	\$104.28	\$114.60	9.90%	\$105.27	0.95%
Standard	\$142.11	\$156.18	9.90%	\$143.45	0.95%
Age-in Rate	n/a	\$80.22	n/a	\$73.69	n/a
Plan L					
Standard	n/a	\$102.38	n/a	\$87.64	n/a
Age-in Rate	n/a	\$71.67	n/a	\$61.35	n/a

(A) From pages 4 and 5 of Rate Filing cover letter.

(B) From pages 4 and 5 of Rate Filing cover letter.

(C) From pages 4 and 5 of Rate Filing cover letter.

(D) $(D) = (A) \times (1 + (E))$; Exceptions: for Plan L Standard Rate is from Attachment AG-R, and Age-in Rate is 70% of Standard Rate. Other Age-in Rates are calculated as 70% of Base Rate (Medigap Plans A and C), or 70% of Discount Rate (Select Plan C).

(E) From Attachment AG-S